

Internal Revenue Service
Q/A from the Allied Charities Convention
By Terri Anderson, Revenue Agent, Central Mountain

- Q1:** If an exempt organization pays monthly rent to a bar owner to sell pulltabs, does the exempt organization have to report tips?
- A1:** No, provided that the exempt organization is not paying wages (other compensation such as a bonus, etc.) to employees. If the exempt organization is only making a payment to the bar owner for rent, services, etc., it is the bar owner's responsibility to educate its employees, provide a procedure for employees to report tips, and report and pay Federal taxes.
- Q2:** If an exempt organization does not have to file a Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, do my employees have to report tips?
- A2:** Yes, all employees (including bartenders, pulltabs sellers, waitresses, gambling manager, bussers, doormen, etc.) must report their tips to their employers when they receive \$20 or more in tips in a month. The fact that the exempt organization does not have to file a Form 8027 does not have any impact on the bar employees' responsibilities to report tips.
- Q3:** Publication 1872, *Tips on Tips - A Guide to Tip Income Reporting for Employees in the Food and Beverage Industry*, only addresses the food and beverage industry. Does that mean those who earn tips in other occupations, such as pulltab sellers, do not have to report their tips?
- A3:** No. All employees starting with employee one who receive tip income must report their tips to their employers when they receive \$20 or more in a month, no matter what their occupation. The latest revision to *Tips on Tips - A Guide to Tip Income Reporting for Employees in the Food and Beverage Industry* (Publication 3148) and *Employer Tip Income Reporting* (Publication 3144) states: "Where Tip Income is Customary" in lieu of "in the Food and Beverage Industry" to avoid confusion.
- Q4:** If I am the employer, what must I do when employees report their tips to me?
- A4:** As the employer, you must withhold Federal income tax, social security, and Medicare taxes, (and state income tax, if applicable,) and properly report this tip income on your business' payroll tax returns.
- Q5:** What if my employees do not want to report their tips?
- A5:** You may want to educate them again and discuss the importance of honesty and integrity. You also have the option of reporting the employee to the Internal Revenue Service.
- Q6:** What can I do, as an employer, to protect myself and demonstrate that I have not been negligent in my responsibilities for the reporting of tips?
- A6:** Educate new employees upon hiring, and, at least once a year, educate all employees by distributing the IRS tip publications and/or showing the IRS tip video. If your employees still have difficulty understanding their requirements, or if you have a frequent turnover of employees, you may need to educate your employees more frequently.

As evidence that you have fulfilled your responsibilities, you may ask employees to sign a statement indicating they attended the meeting, they received the publications, and they understand the procedure to report their tips to you, their employer. (The Internal Revenue Service does not have such a form.) You may also want to document this in your board of director meeting minutes.

In addition, you should encourage tip reporting by providing a procedure for your employees to report their tips to you. Although the law requires tip reporting by the 10th day of the following month in which the tips are received, it may be easier for your employees to report their tips to you following each pay period, instead of monthly.

Q7: When should my employees start reporting their tips?

A7: Now.

Q8: What are the consequences if employees do not report their tips?

A8: If employees do not report their tips to their employer as required, the employee may be subject to a penalty equal to 50% of the social security and Medicare taxes or railroad retirement tax owed on the unreported tips. The penalty amount is in addition to the taxes "owed." It is important that employees report 100% of their tips to their employer each and every month.

Q9: What happens if employees report their tips, but when it comes time to pay their taxes, they do not have enough money?

A9: The employer may take the taxes owed out of the employee's next paycheck to pay the rest of the taxes. See Publication 531, *Reporting Tip Income* for more details.

Q10: Is tip reporting something new?

A10: No. Reporting all tip income has always been required.

Q11: What should I do if I have done everything I am required to do?

A11: Spread the word and encourage others who are not getting the message.

Q12: How do I obtain Publications 1872, 1875, 1244 and 531?

A13: Visit the IRS website at www.irs.gov or call 1-800-829-3676.

Q14: Where do I go for more help about tips?

A14: For questions relating to reporting tip income, call: Terri Anderson, IRS Exempt Organizations Revenue Agent, at (651) 312-7720 (not toll free). Please leave a message if she is unavailable and she will return your call as soon as possible.

For Exempt Organization related questions not relating to tip income, call: IRS Exempt Organizations Customer Service, 1-877-829-5500 (toll free).

Visit the IRS Internet sites:

www.irs.gov or
www.irs.gov/bus_info/eo/index.html